

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sebewaing Harbor Commission	County Huron
Fiscal Year End 3/31/06	Opinion Date 7/7/2006	Date Audit Report Submitted to State 9/22/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

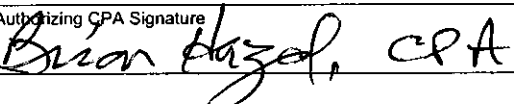
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NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No Single audit required	
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-883-3122	
Street Address 41 E Main Street		City Sebewaing	State MI
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA	Zip 48759
		License Number 1101014007	

**SEBEWAING HARBOR COMMISSION
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2006**

SEBEWAING HARBOR COMMISSION

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REPORT OF INDEPENDENT AUDITORS

To the Honorable Board of Commissioners
Sebewaing Harbor Commission
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of and for the year ended March 31, 2006, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sebewaing Harbor Commission, Sebewaing, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of March 31, 2006, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as noted in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

July 7, 2006

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Sebewaing Harbor Commission, we offer readers this narrative overview and analysis of the financial statements of the Sebewaing Harbor Commission for the year ended March 31, 2006. Please read it in conjunction with the Harbor's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2006 by \$139,420 (net assets) compared to \$157,234 as of March 31, 2005. This represents a decrease of \$17,814 for the fiscal year.

The majority of the decrease in net assets can be attributed to the lack of boat slip rentals due to shallow water conditions in the marina and adjoining river.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sebewaing Harbor Commission's basic financial statements. The Harbor is a special-purpose government : engaged only in business type activities.

The basic financial statements report information about the Harbor using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

The statement of net assets presents information on all of the Harbor's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Harbor is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Harbor's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when obligations arise, or depreciation of capital assets.

The basic financial statements can be found on pages 1-4 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 5-7 of this report. You should read the notes before making

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

assumptions or drawing conclusions about the Harbor's financial condition.

The following table presents the condensed statement of net assets as of March 31, 2006 and 2005:

	March 31, <u>2006</u>	March 31, <u>2005</u>
Current assets	\$ 1,245	\$ 1,798
Capital assets	103,340	103,340
Other assets	<u>66,266</u>	<u>70,683</u>
Total assets	<u>170,851</u>	<u>175,821</u>
 Liabilities	 <u>31,431</u>	 <u>18,587</u>
 Net assets:		
Investment in capital assets	103,340	103,340
Unrestricted	<u>36,080</u>	<u>53,894</u>
Total net assets	<u>\$139,420</u>	<u>\$157,234</u>

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2006 by \$139,420. This represents a decrease of \$17,814 or 11% for the fiscal year.

As of March 31, 2006, the largest portion of the Harbor's net assets reflects its investment in capital assets (\$103,340) (land on which the marina is located) less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. At March 31, 2006, there was no debt related to any of the capital assets.

On October 21, 2003, the Harbor Commission purchased the right to operate the marina from the private operator through the assignment of the operating lease with the Michigan Department of Natural Resources. The purchase of the assignment of the operating lease was for \$75,100. As a result, the fiscal year 2004-2005 was the first year that the Sebewaing Harbor Commission operated the marina.

The following table shows condensed revenue and expense data for the years ended March 31, 2006 and 2005:

	March 31, <u>2006</u>	March 31, <u>2005</u>
Operating revenue	\$ 24,016	\$ 25,831
Operating expenses	<u>53,830</u>	<u>48,647</u>
Operating loss	(29,814)	(22,816)
Capital contributions	<u>12,000</u>	<u>14,803</u>
Change in net assets	(17,814)	(8,013)
Net assets, beginning of year	<u>157,234</u>	<u>165,247</u>
Net assets, end of year	<u>\$139,420</u>	<u>\$157,234</u>

The Harbor Commission generates the majority of its revenue from fees from the boat launch and the rental of boat slips in the marina. For the year ended March 31, 2006, the revenue from these fees amounted to \$18,717 compared to \$18,843 for the year ended March 31,

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

2005. The Harbor Commission also generates revenue from the sale of marine gasoline and merchandise. The sales of these items amounted to \$4,079 for the fiscal year ended March 31, 2006 compared to \$3,536 for fiscal year 2005.

The Harbor's net asset decrease of \$(17,814) is due primarily to the loss from operations during the fiscal year. The decrease for the fiscal year 2005 was \$(8,013). The combination of lower operating revenue and higher operating expenses resulted in a higher operating loss for the fiscal year 2006.

CAPITAL AND DEBT ADMINISTRATION

Capital assets. The Sebewaing Harbor Commission's capital assets as of March 31, 2006 were \$103,340. This is the cost of the land on which the marina is located. The construction costs of the marina were financed by the Michigan Department of Natural Resources.

Long-term debt. The only debt that the Harbor Commission has outstanding as of March 31, 2006 is an amount due to the Village of Sebewaing in the amount of \$31,210. This amount represents monies that the Village has advanced to the Harbor Commission for operations and the purchase of the land.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

During this past fiscal year, the Department of Natural Resources, Parks & Recreation Division allocated a grant in the amount of \$100,000 to the Village of Sebewaing and Sebewaing Harbor Commission for the purpose of dredging a shallow area at the mouth of the Sebewaing River. The Sebewaing Harbor Commission is suffering from a lack of revenue due to its ability to rent boat slips due to this shallow area. This grant shall be used for dredging, environmental testing, transportation and disposal of the dredged material, and engineering costs. On August 23, 2005, a Grant-in-Aid Agreement was signed between the Village of Sebewaing and the Michigan Department of Natural Resources to fund and complete this project. The purpose of this project is to deepen the channel at the mouth of the Sebewaing River to allow safer ingress and egress to and from Saginaw Bay and the Sebewaing Marina. Upon completion of this project, the Sebewaing Harbor Commission can advertise slip rental to larger boats. This should help the Sebewaing Harbor Commission in future revenues.

REPORTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sebewaing Harbor Commission's finances. Questions concerning this report or requests for additional information should be addressed to the Village of Sebewaing, 108 W. Main Street, Sebewaing, Michigan 48759.

BASIC FINANCIAL STATEMENTS

SEBEWAING HARBOR COMMISSION

STATEMENT OF NET ASSETS MARCH 31, 2006

ASSETS

CURRENT ASSETS:

Cash	\$ 270
Due from Sebewaing Township	975

TOTAL CURRENT ASSETS 1,245

CAPITAL ASSETS:

Land	<u>103,340</u>
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OTHER ASSETS:

Marina lease	75,100
Accumulated amortization	<u>(8,834)</u>

TOTAL OTHER ASSETS 66,266

TOTAL ASSETS 170,851

LIABILITIES:

Due to Village of Sebewaing	31,210
Deferred Revenue	<u>221</u>

TOTAL LIABILITIES 31,431

NET ASSETS:

Investment in capital assets	103,340
Unrestricted	<u>36,080</u>

TOTAL NET ASSETS \$ 139,420

SEBEWAING HARBOR COMMISSION

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED MARCH 31, 2006

OPERATING REVENUE:

Seasonal launch permits	\$ 4,147
Transient boat launches	8,122
Boat slip rentals	6,448
Gas sales	1,877
Store sales	2,202
Donations	1,220

TOTAL OPERATING REVENUE	<u>24,016</u>
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OPERATING EXPENSES:

Wages	15,738
Payroll taxes	2,040
Supplies	2,849
Utilities	4,775
Professional services	8,000
Insurance	7,499
Repairs and maintenance	3,540
Gasoline	1,998
Audit fee	1,840
Miscellaneous	1,134
Amortization	4,417

TOTAL OPERATING EXPENSES	<u>53,830</u>
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OPERATING (LOSS)	<u>(29,814)</u>
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CAPITAL CONTRIBUTIONS	12,000
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CHANGE IN NET ASSETS	<u>(17,814)</u>
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NET ASSETS - APRIL 1	157,234
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NET ASSETS - MARCH 31	<u>\$ 139,420</u>
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SEBEWAING HARBOR COMMISSION

STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 24,016
Cash payments to suppliers of goods and services	(18,791)
Cash payments to employees	(15,738)
Cash payments for fringe benefits	<u>(2,040)</u>
Net cash used by operating activities	<u>(12,553)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Proceeds from joint owners	12,000
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NET (DECREASE) IN CASH	<u>(553)</u>
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CASH - BEGINNING OF THE YEAR	823
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CASH - END OF THE YEAR	<u>\$ 270</u>
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Reconciliation of operating (loss) to net cash flows from operating activities:

Operating (loss)	\$ (29,814)
Add amortization expense	4,417
Increase in amount due to Village of Sebewaing	12,844

Net cash used by operating activities	<u>\$ (12,553)</u>
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SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Sebewaing Harbor Commission have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies are described below.

Financial Reporting Model:

The Board has implemented the provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Reporting Entity:

The financial statements of the Sebewaing Harbor Commission consists only of the funds of the marina. The Sebewaing Harbor Commission has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Sebewaing Harbor Commission. Control or dependence is determined on the basis of accountability, budget adoption, taxing authority, funding and appointment of the respective governing board.

The Sebewaing Harbor Commission was formed as a joint venture between the Village of Sebewaing and Sebewaing Township for the purpose of planning, acquiring, constructing and operating a community harbor and marina to provide recreational services to the residents of the Village and Township along with the general public. Each governing body appointed three members to create a six member Board of Commissioners. Also, each governing body is equally responsible to provide financial funding to the Harbor Commission until the Commission is self-sufficient. Based on this financial and oversight responsibility being shared equally by the Village of Sebewaing and Sebewaing Township, the Sebewaing Harbor Commission is being treated as a joint venture of the two governing bodies and a separate governmental entity.

During the land acquisition phase, the Village of Sebewaing advanced funds to the Harbor Commission that were used for the purchase of land at the proposed site of the marina. The proceeds of the state grants and Sebewaing Township's share of the local matching funds were used to reimburse the Village for part of the funds advanced. As of March 31, 2006, the amount due to the Village of Sebewaing from the Harbor Commission amounted to \$31,210. As of March 31, 2006, the amount due from Sebewaing Township amounted to \$ 975.

SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:

The Harbor Commission is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Commission follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND DEPOSITS:

Deposits are carried at cost. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Commission Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loans associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Commission deposits are in accordance with statutory authority.

The carrying amount of cash and deposits with financial institutions of the Sebewaing Harbor Commission amounted to \$270 at March 31, 2006. The bank balance as of the same date was \$439. Deposits with financial institutions are insured by the FDIC.

SEBEWAING HARBOR COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 3 – CHANGES IN CAPTIAL ASSETS:

Capital assets of the Harbor Commission consisted of the following:

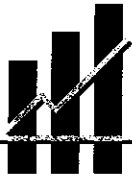
	<u>April 1, 2005</u>	<u>Additions</u>	<u>March 31, 2006</u>
Land	\$103,340		\$103,340

NOTE 4 – OTHER ASSETS:

During the year ended March 31, 2004, the Sebewaing Harbor Commission purchased the marina operating lease from the private operator for \$75,100. The cost of the operating lease is being amortized over the remaining term of the lease which is 17 years. For the fiscal year ended March 31, 2006, the marina was operated by the Sebewaing Harbor Commission.

NOTE 5 – RISK MANAGEMENT:

During the year ended March 31, 2006, the Harbor Commission purchased commercial insurance to protect against losses related to its general liability.



Nietzke & Faupel, PC

ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

July 7, 2006

To the Board of the Sebewaing Harbor Commission
Sebewaing, Michigan 48759

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Sebewaing Harbor Commission for the year ended March 31, 2006, and are submitted for your evaluation and consideration. We would like to emphasize that since our audit was conducted for the purpose of expressing an opinion on the aforementioned financial statements, these comments are not necessarily all inclusive.

Cash Deposits

Our audit testing in the area of cash receipts revealed that the Harbor is not making daily intact deposits of cash to the bank. This practice opens the Harbor to the threat of a loss or theft of cash while it is on the premises. To strengthen internal controls in this area, we suggest that during times of heavy cash inflow, deposits to the bank be made on a daily basis. During periods of less cash inflow, we recommend that cash be deposited at the bank no less than once a week. This practice will firmly strengthen the Harbor's internal control process over cash receipts and greatly lessen the likelihood that cash could be lost or stolen before it is deposited in the bank. It is important to remember that the cash receipts should be deposited intact to the bank. That means that all of the cash and checks received since the last deposit should be deposited to the bank on a regular basis.

Check Mailing

The person responsible for preparing checks is also responsible for mailing the same checks. The limited size of the accounting department makes it impracticable to achieve an optimum segregation of duties. However, the internal accounting controls would be significantly strengthened if checks were mailed by someone other than their preparer, to provide control on whether the checks written are in fact sent out.

Bank Reconciliation

Accounting personnel perform the bank reconciliation function. However, there is currently no procedure in place to review the bank reconciliation after it is completed. This practice would greatly enforce the checks and balances necessary for strong controls over cash. We suggest that a member of the board review the bank reconciliations for any unusual items, investigate and fully resolve any such items, and document his or her approval by initialing the bank reconciliation.

Petty Cash


All Marina personnel have access to the petty cash box and there is no single custodian responsible for its disbursements and receipts. We strongly suggest that one employee be responsible for keeping the petty cash box securely maintained on an imprest basis at all times. Someone other than the custodian should be preparing and approving vouchers requesting money from the petty cash box. These procedures will enhance controls over the petty cash funds.

Invoice Approval

Our audit testing revealed that some invoices are being paid without being approved. All invoices need to be marked approved by the Marina manager, and all invoices should be approved for payment by the Harbor Commission before they are paid. As the Board of the Harbor Commission approves the invoices and checks, a list of the approved checks should be attached to the minutes. Furthermore, all invoices need to be marked paid to reduce the risk of paying the invoice more than once. These procedures will enhance controls over cash disbursements.

We believe that the implementation of these recommendations will provide the Harbor Commission with a stronger system of internal accounting control. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the Board of the Harbor Commission, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.


NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN